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(1) Prime Minister's office making every effort to adjust policy to suit DPJ on Antiterrorism Law, tax reform

NIKKEI (Page 2) (Full)
August 7, 2007

In the aftermath of the ruling coalition's crushing defeat by the Democratic Party of Japan's (DPJ or Minshuto) in the July House of Councillors election, Prime Minister Shinzo Abe is making every effort to adjust his administration's policies to suit that party. In order for the government to swiftly enact bills, cooperation from

the opposition camp is absolutely essential now that the opposition has control of the Upper House. The prime minister aims to produce "results" by accepting the views of the DPJ on such key agenda items as the extension of the Antiterrorism Special Measures Law and reform of the Public Service Law. On specifics, though, there is a great difference between both sides' views. It remains to be seen to what extent the DPJ, which has underscored it is now taking a confrontational stance and wants Abe to dissolve the House of Representatives, will respond to the ruling camp's approach.

In an interview with the Nikkei yesterday, State Minister in Charge of Administrative Reform Yoshimi Watanabe indicated he has no intention of drastically changing the already revised Public Service Law. But he implied his willingness to reflect the DPJ's assertions in a bill on reforming the civil service system to be submitted to the regular Diet session next year, saying: "Many DPJ members are calling for introducing a political-appointee system. Such calls are worth listening to." Watanabe said that there is room for the LDP to discuss the DPJ's request for restricting officials at independent administrative corporations from finding employment in the private sector after retirement, if the regulations are transitory.

After the election, the prime minister has reiterated at press conferences and on other occasions his eagerness to cooperate with the DPJ, saying: "When we should be listening to the DPJ, we must do so."

On the issue of extending the Antiterrorism Law, DPJ President Ozawa has expressed his opposition to the government's bill, so the ruling camp has made a policy switch to allow insertion of the condition of "prior Diet approval," (which the DPJ wants). Although the DPJ now controls the Upper House, views are split in the party on whether to extend the law. By making a concession, the ruling camp aims to

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loosen opposition to the bill in that party.

Discussion will start in the fall on a sweeping reform of the tax system, so the government and the ruling coalition cannot afford to put off addressing this issue. With the aim of enacting related bills in the regular Diet session next year, they intend to call on the DPJ to set up a consultative council for both sides to discuss tax reform and social insurance issues.

On all of these issues, however, both camps will inevitably find difficulty in making compromises. Regarding the consumption tax - a focus in the tax-revision process, the prime minister has indicated the possibility of raising the taxrate, but the DPJ has upheld its call for keeping the current rate unchanged. On social security policy, as well, the prime minister is obsessed with a premium formula, while the DPJ is calling for a formula to finance basic pensions with tax money. As it stands, both sides stand squarely against each other on two key issues.

By showing a certain level of concession, the ruling camp is maneuvering to draw the DPJ into policy talks, but many in the Prime Minister's Official Residence (Kantei) and the LDP take the view that "Ozawa is unlikely to easily make any concession because his ultimate goal is to grab political power." The main opposition party, which has obtained the Upper House' presidency and Steering Committee chairmanship for the first time since its establishment, is viewed certain to take a high-handed approach in handling Diet affairs. DPJ's future moves will determine whether things will move as desired by the prime minister.

(2) Efforts to move primary balance into black likely to suffer setback: Cabinet Office revises mid-term outlook, by lowering estimate for nominal growth rate

The Cabinet Office yesterday released a new mid-term economic outlook report, which estimated the growth rate of the Japanese economy and the trend of prices up to fiscal 2011. The report revised down the outlook for improvement in the primary balance combining the payment balances of the central and local governments. It estimated that the ratio of the primary balance to the nominal GDP would move into the black in fiscal 2011 and incorporated a severe view toward the feasibility of financial recapitalization, compared with the outlook issued January this year (which estimated the 0.2 PERCENT surplus). The report warned of the feasibility of the government goal of moving the primary balance into the black by fiscal 2011.

The new outlook revealed this time is a revised version of the "Course and Strategy," medium-term guidelines for the management of the economy, which the government adopted in January. This is the first time that the government has revised the mid-term outlook in the summer. The Cabinet Office reported on the revised outlook at a meeting of the Council on Economic and Fiscal Policy on Aug. 6 in order to have it reflected in the compilation of the fiscal 2008 budget.

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Surpluses in the primary balance mean that expenses for administrative services can be covered with tax revenues and revenues from sources other than taxes for the year. In compiling the outlook this time, the Cabinet Office revised the New Economic Growth Scenario aimed at moving payments balance into the black by fiscal 2011 without a tax hike. As a result, the ratio of the margin of surpluses to the nominal GDP has been revised down by 0.2 points close to 0 PERCENT indicating that equilibrium has been achieved in balance of payments. The major reason for this estimate is that estimated tax revenues have decreased as a result of a lowered projection for a nominal growth rate.

The precondition for this scenario is cutting expenditures by a total of 14.3 trillion yen over five years from fiscal 2007 through 2011. The scope of this reduction is the upper limit of the five-year plan (between 11.4 trillion yen and 14.3 trillion yen), which the government incorporated in the big-boned economic guidelines with the aim of achieving a unified reform of revenues and expenditures.

The estimate is based on the assumption that the government goal could be narrowly achieved if a maximum spending cut were carried out. The report also included a case in which the primary balance moves into the red by 0.4 PERCENT because the margin of spending cuts remains within the lower limit of 11.4 trillion yen. The new mid-term economic outlook report is also aimed at checking pressure seeking an increase in expenditures, because "If efforts to reduce expenditures are relaxed, the consumption tax must be raised," as one Cabinet Office official put it.

(3) Seiron (Opinion) column: Ruling and opposition parties should not destroy Japan's international prestige by locking horns in vain

SANKEI (Page 13) (Abridged)

August 7, 2007

Hiroshi Nakanishi, professor at Kyoto University

In the recent Upper House election, the ruling parties suffered a crushing defeat, while the major opposition Democratic Party of Japan (DPJ or Minshuto) became the largest force in the chamber. Japanese politics is now undergoing a major test. Will the ruling and opposition parties take this opportunity to promote political reform or will they become inward-looking and be preoccupied with confronting each other, making Japan's presence in the international community even more insignificant?

Why was the ruling bloc heavily defeated? Some point to the weakened local organizations of the ruling Liberal Democratic Party (LDP) in the wake of the so-called Koizumi structural reforms, for instance, the privatization of the postal services and the curtailment of public works projects. This may be in part true. But it seems difficult for the LDP to go back to where it used to be, namely, to a time when it was backed by strong local organizations. Six years ago in the LDP presidential election, former Prime Minister Koizumi won unexpectedly by a wide margin over former Prime Minister Hashimoto. This victory was attributable to the LDP's local chapters

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that did not want to suffer a massive defeat as they had in 1998 under the Hashimoto administration. In the 2001 Upper House election, as they expected, the LDP won, widening support among unaffiliated voters thanks to Koizumi's popularity at the time. However, in the 2004 Upper House election, when Koizumi was not as popular as he had been before, the positions of the LDP and the DPJ in terms of votes they respectively garnered from the proportional representation segment were reversed. In other words, the LDP then became a party that was unable to win in the Upper House election if it relied solely on organized votes, as it had done before the so-called Koizumi reforms began. This fact has been simply confirmed by the LDP's defeat this time.

Poor handling of government eroded public confidence

No doubt, Prime Minister Abe is enthusiastic about reforming the basic structure of the state, including the Constitution, the education system, and foreign and security affairs. When his administration came into being, this attitude of Abe was given support by one group but it alarmed another group. In between these two groups were the unaffiliated voters, most of whom assumed a wait-and-see attitude toward Abe. However, the way Abe proceeded to handle the government caused public confidence in him to drop. He emphasized the need to reform the existing systems, but all he did in actuality was in a way to treat the symptoms instead of resolving the basic problems. His selection of cabinet members also can be seen in this light. What is worse, he was poor at managing state affairs in a logical manner. Take a look at educational reform. Abe was able to amend the Basic Education Law, an item he had inherited from his predecessor. This was a good thing, but he at the same time established an education revitalization council with the cabinet's initiative. In my view, one logical way of doing things would be to launch an education revitalization council after revising the Basic Education Law or to revise the law in line with recommendations from the council.

Another problem was that the prime minister's words were too light. Abe described the election campaign this time as "a crucial battle" and asked voters, "Who do you choose, Mr. Ozawa or me?" These words lacked the weightiness one would expect from a prime minister. In addition, Abe tended to turn around his policy stance in response to public reactions as evidenced by the white-collar exemption problem and pension fiasco. This tendency had a negative effect on public opinion.

DPJ put to the test over the extension of the antiterrorism law

Now then, let us take a look at the DPJ. Japan is moving toward a two-party system. The more Japan moves in that direction, the more likely it will be that the ruling bloc will continue to hold a majority in the Lower House and the opposition bloc will dominate the Upper House. The occurrence of this sort of situation, however, is not anticipated by the Constitution. If in such a situation, both sides confront each other head-on, Japan's politics will stall. What the LDP and the DPJ should do under such a situation is to create a mechanism for them to strike a compromise in accepting the other side's assertions if necessary.

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Doing so is desirable particularly for the DPJ. The sentient public will be paying attention as to whether the DPJ is capable of properly judging when to assert itself and when to yield.

The question of extending the Antiterrorism Special Measures law, which expires in November, in this sense will be the acid test for the DPJ. Given that the DPJ has been opposed to extending the law until recently, it is understandable that the DPJ cannot accept the extension unconditionally. But it is true that the DPJ at one time favored establishing such a law. The DPJ has been opposed to the extension to date, but I think its opposition is not something absolute since it has raised opposition with conditions attached. I therefore think it is possible for the DPJ to agree on the extension of the law if revisions are made to the bill.

Under the law, the Maritime Self-Defense Force (MSDF) has refueled vessels from the United States and 10 other countries in the Indian Ocean. The MSDF's refueling operations have been widely praised. If these operations are suspended because of a domestic political showdown, one can imagine how seriously Japan's prestige will be damaged in the international community? If the DPJ wants to put an end to the law, it is responsible for presenting a basic security bill as it has asserted before ending the law and reveal how Japan will take part in peace-building in Afghanistan.

(4) Calls for Abe's resignation at LDP meeting

YOMIURI ONLINE

August 7, 2007 13:48 pm

During an LDP meeting this afternoon at which Prime Minister Abe was present, others in attendance urged him to resign from office.

Former Defense Minister Gen Nakatani (Tanigaki faction) said that "the prime minister should step down." Chief Deputy Chairman of the LDP Policy Research Council Kenji Kosaka (Tsushima faction) also offered criticism, saying: "Rather than proclaiming that he will remain in office, (Abe) should seek opinions at a Joint Plenary Meeting of Party Members of both Houses of the Diet."

Prior to this meeting, at a Joint Plenary Meeting of Party Members of both Houses of the Diet, the prime minister said: "I know that many people are saying that I (should) take responsibility and resign. Although there may be a long difficult road ahead, I must push ahead with reforms in order to fulfill my responsibilities."

(5) CFP starts discussing fiscal 2008 budget; Prime Minister underscores his determination to continue with structural reforms; 3 percent cut in public projects confirmed

NIKKEI (Page 3) (Full)

August 7, 2008

The government yesterday held the first meeting of the Council on Economic and Fiscal Policy since the Upper House election. Participants have started discussing the fiscal 2008 budget. They confirmed a general budgetary outline, including a 3 PERCENT cut in public projects. Prime Minister Abe is determined to compile budget

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request guidelines before the end of the week. However, following its defeat in the Upper House election, the ruling camp intends to

increase pressure, as can be seen in their call for a special framework aimed at expanding outlays. Problems have begun to appear in the feasibility of the government scenario of balancing economic growth and restoring soundness to the country's fiscal situation. The prime minister-led management of economic and fiscal policy is becoming uncertain.

Ruling camp demanding separate framework aimed at increased expenditures

The prime minister during the meeting stressed his determination to continue with the structural reform policy, noting, "The election results are harsh for us. I would like to fulfill my responsibility by properly implementing reform. Regarding the fiscal 2008 budget as well, he hinted at his persistence to achieve fiscal soundness, noting, "I would like to see both the central and local governments come up with austere budget estimates, by cutting spending to a maximum."

Private-sector members of the CEFP, including Fujio Mitarai, chairman of Canon, indirectly supported the prime minister at the meeting yesterday. Participants almost unanimously approved the overall picture of the government-envisaged budget for next fiscal year.

Abe was quick to act. He called in LDP Policy Research Council Chairman Shoichi Nakagawa to the Kantei and ordered him to compile the fiscal 2008 budget in line with the outcome of the discussion pursued by the panel. He apparently followed the method taken by former Prime Minister Junichiro Koizumi, who characterized the CEFP as a reform engine. Abe presumably intends to contain criticism by those close to him, which erupted following the result of the Upper House election.

However, the panel's penetrative powers have weakened, compared with the era of the Koizumi administration during which it fought and brought the forces of resistance into submission. Following the defeat of the ruling camp, intensive deliberations on such issues as reform of the tax system, which had been slated for late this month, have been put off. Such being the situation, once budget estimate caps are approved on the 9th, it will be impossible for the panel to hold a meeting until after the cabinet is reshuffled, which is expected to take place on Aug. 27. Since it functions on the strength of the prime minister's leadership, there is an undeniable concern that the panel has been reduced to a mere skeleton.

Judging that it would be easier to deal with the government, the ruling camp is also looking for an opportunity to resist. The LDP will enter full-fledged budget deliberations on the 7th. However, a mood of seeking additional budgetary allocations to local governments is permeating through the party, because of the major shock it experienced in the defeat in single-seat constituencies, where it gained only six seats and lost 23. At the CEFP meeting on the 6th, too, Finance Minister Omi, who is supposed to keep a watchful eye over a possible budget increase, said, "Since some local governments are experiencing harsh financial situations, I would like to give

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consideration to them."

The government indicated its consideration to the ruling parties by incorporating a framework for key request items, including a budget for regional revitalization. This is a mechanism allowing all ministries to earmark additional budgetary amounts at the stage of submitting estimated requests, though their budget requests have a ceiling. The total amounts requested will be finalized under the caps, based on year-end screening to be carried out by the Finance Ministry.

However, this does not mean an increase in the final appropriation of budgetary funds. As a matter of fact, the Finance Ministry is

making a final adjustment with the lower half of the 17 trillion yen level in mind. The ministry has no intention of changing the caps on general-account expenditures. Ruling party members are criticizing the amounts set by the Finance Ministry as insufficient. Some ruling party members have called for setting a special framework aside from the ceilings in order to make sure an increase in a budget for local governments. An explosive mood is building.

SCHIEFFER